U.S. Senate
Republican Policy
Committee

Larry E. Craig, Chairman
Jade West, Staff Director

Conference Report Highlights

August 5, 1999

Highlights of the Conference Report to H.R. 2488, The Financial Freedom Act of 1999 (Reconciliation Bill)

Noteworthy

- The Financial Freedom Act of 1999 (FFA) is the reconciliation bill provided for in the Budget Resolution for FY 2000, H.Con.Res. 68. The conference report conforms to the stipulated revenue reductions of up to $14 billion in FY 2000, $156 billion in fiscal years 2000-2004, and $792 billion in fiscal years 2000-2009.

- A reconciliation conference report is privileged legislation. Debate is limited to 10 hours and a motion to recommit is not in order (if the House has already acted on the conference report).

- The House was slated to take up the conference report as its first order of legislative business today under a one-hour rule. The Senate is expected to take up the conference report as soon as it is transmitted from the House.

- The House passed its original reconciliation bill July 22 by a vote of 223-208. The Senate passed its version of reconciliation (S. 1429) by a vote of 57-43 on July 30.

- The FFA is the largest middle-class tax cut since Ronald Reagan was president. It does not use any of the Social Security surplus in any year. Together with the tax cut provided under the Balanced Budget Act of 1997 ($85 billion over five years), it exactly offsets President Clinton's 1993 all-time record tax hike of $241 billion over five years.

Highlights

- The conference report provides estimated tax relief of $5.3 billion in FY 2000, $155.9 billion in FYs 2000-2004, and $791.9 billion in FYs 2000-2009.

- The conference report focuses its tax cut relief on these categories: **Families, Savings, Investment & Job Creation, Retirement Security, Education, and Health Care.**

- Fully 50% of the bill's resources go to broad-based and marriage-penalty tax relief.

- Family-oriented tax provisions include: Broad-based tax relief concentrated on the lowest income tax bracket (which receives a 7% reduction, compared to a 2.5% reduction for the top bracket), marriage-penalty relief, individual relief from the antiquated Alternative Minimum Tax (AMT) provision, and increased relief for the care of dependents.

- Savings and Investment-centered provisions include: Estate tax repeal, five-year extension of the R&E tax credit, small business and family farm relief, capital gains reduction and corporate AMT relief.

- Retirement relief includes: Expansion of eligibility and contribution limits for IRAs and other retirement plans, provisions enhancing fairness to women, and giving small businesses incentives to establish retirement plans.

- Education-friendly provisions include: Increased contribution levels and expansion of eligible withdrawals for Education Savings Accounts (ESAs), tax-free distributions from college tuition plans, extended tax breaks for employer-provided assistance, and school construction assistance.

- Health care-oriented items include: Full self-employed health insurance deductibility, expanded health insurance deductibility, long-term care insurance deductibility, and a Medicare prescription drug provision.

Major Provisions

The following is a short description of the major provisions of the bill. All revenue estimates are ten-year figures unless otherwise noted.

Family Tax Relief ($508.1 Billion)

Broad-based Tax Relief: $282.6 billion. The 15% income tax rate bracket will drop to 14.5% in 2002 and to 14% in 2003. All remaining income tax rates and the AMT rates will drop by a full percentage point in 2005. In 2006, the income limits of the 14%-rate bracket will increase by $3,000 for singles and heads of households.

Marriage Penalty Relief: $117 billion. The marriage penalty affects two-earner families by giving them a higher tax liability than if they had filed as two single individuals. This penalty affects both the income brackets and the standard deduction. The conference report provides a phased-in increase of the standard deduction over five years beginning in 2001 for joint filers so that joint filers' deduction will be set at twice the level for single filers. The bracket problem is addressed by increasing the width of the 14%-bracket to twice the single bracket, phased in over four years beginning in 2005 and is sunset after 2008.

- NOTE: The Senate amendment regarding elective single filing and the inclusion of EIC credits in marriage-penalty relief are not included in the conference report.

Individual AMT: $102.9 billion. Phase out the AMT for individuals, eliminate the 90%-AMT foreign tax credit limitation, and prevent the AMT from limiting the benefit of personal credits ($500-per-child credit, HOPE scholarship, Lifetime Learning credits, etc.). Sunset after 2008.

Dependent Care Tax Credit: $4.9 billion. Proposal also indexes AGI limits and qualified expense limits. Increases percentage to 35% for AGI under $30,000; percentage increases to 40% in 2006. Percentage phases down by 1%-per-$1,000 for AGI over $30,000 but does not go below 20%. Allowable expenses for children under age 1 increases to $200/month in 2006.

Savings, Investment, and Job Creation ($75.3 Billion)

Capital Gains: $32.5 billion. Current 20%/10% rate structure reduced to 18%/8% effective back to 1/1/99. Recaptured "1250" gain is reduced from 25% to 23% effective 1/1/99. Indexing with assets marked-to-market beginning in 1/1/00.

IRAs: $33.4 billion. Increase contribution limit for all IRAs from current $2,000 to $3,000 in 2001-2003; to $4,000 in 2004-2005; to $5,000 in 2006-2007; and reversion to current $2,000 limit in 2008 and after. Increase Roth IRA conversion limit to $200,000 for joint filers beginning in 2003. Increase income limits for Roth IRA contribution from $100,000 to $110,000 for single filers and from $200,000 to $210,000 for joint filers — both beginning in 2003. Phased-in catch-up contributions for those aged 50 and over allowed of up to 50% of the contribution limit beginning in 2001 (sunset in 2007).

Corporate AMT: $8 billion. Repeal of 90% limit on net operating losses (NOLs), repeal 90% limit on foreign tax credits (beginning in 2002), and allow AMT credits to reduce up to 50% of current AMT liability up to regular tax liability (effective beginning in 2005).

Education ($11.3 Billion)

Education Savings Accounts (ESAs): $3.6 billion. Contribution limit is increased to $2,000. Eligible expenses include K-12 expenses. HOPE or Lifetime Learning credits can be claimed as long as they are not used for the same expenses. Effective in 2001.

Qualified State Tuition Plans: $1.1 billion. Allows private plan participation effective in 2000 and allows for exclusion of distributions from gross income for State plans (effective 2000) and private (effective 2004).

Employer-provided assistance: $1.4 billion. Extends exclusion through 2003.

Student Loan Interest Deduction: $2.6 billion. Repeal 60-month limit for deducting interest expenses, adjust beginning phase-out for joint returns to double that of singles (marriage penalty correction), and increase phase-out point for single filers by $5,000.

Award tax exclusion: $36 million. Exclude from taxation certain scholarship awards such as NIH Undergraduate Program scholarships.

School Construction: $2.5 billion. Doubles from two years to four years the permissible expenditure period for public school bonds — effective 1/1/00.

Teacher Development: $40 million. Current 2% floor for professional development expenses does not apply to teachers — limit of $1,000 on permissible expenses (effective 2001 through 2004).

Health Care ($43.9 Billion)

Deduction for Prescription Drug Insurance: $314 million. Above-the-line deduction for Medicare beneficiaries' insurance (Medigap or other health plan) premium that is attributable to prescription drugs; this proposal is contingent upon Medigap policy reform. Effective 2003.

Additional caretaker exemption: $3.2 billion. An additional personal exemption for taxpayers who are caretakers of their elderly and infirm parents or grandparents is allowed.

Health Insurance deduction expansion: $31.3 billion. Allow phased-in (25% in 2002-2004; 50% in 2005 and 2006; and 100% thereafter), above-the-line deduction of health insurance costs for those persons not receiving greater than a 50%-employer subsidy.

Long-term care insurance: $8.8 billion. Allow phased-in, above-the-line deduction of long-term insurance costs for those persons not receiving greater than a 50% employer subsidy. Also allow long-term care insurance to be part of an employer-provided cafeteria plan.

- NOTE: Medical Savings Accounts (MSAs) are not included from the House bill.

Estate and Gift Tax Relief ($65.6 Billion)

Repeal Estate (Death) tax: $65.3 billion. Phased-in reduction of rates, then repeal of estate tax. Converts the unified credit into an exemption, effective 2000, to provide the benefit of lower rates.

Farm, Small Business, & Distressed Community Relief ($13.5 Billion)

Allows federal production payments to farmers to be taxable in year received. Effective upon enactment. Negligible revenue effect.

Farmer and Fishermen income averaging: $27 million. Coordinates farm income averaging with the AMT and extends to fishermen (effective after 1999).

FFARRM Accounts: $895 million. Establishes these after 2000.

Increase Reforestation Assistance: $277 million. Increase the maximum dollar amount expenditures eligible for amortization and credit.

Self-employed health insurance deductibility: $2.9 billion. Allow immediate deductibility for self-employed health insurance expenses (versus the current phased-in schedule).

FUTA surtax repeal. Repeals temporary FUTA surtax.

Increase section 179 expensing: $2.5 billion. Increase section 179 expensing to $30,000.

Oil and Gas Carry-back: $246 million. Allow NOLs from oil and gas properties to be carried back for up to five years.

Geological and Geophysical Expensing: $267 million. Expensing for geological and geophysical costs: Allows election to expense these costs.

Renewal Communities: $2.2 billion. Allows HUD to designate 20 renewal communities that would receive, among other provisions, a 0% capital-gains rate, etc.

Meal Deduction: $3.9 billion. Increases meal deduction to 60%, effective after 2004. Applies to truckers as well.

International Tax Relief ($31.2 Billion)

Allocate interest on a worldwide basis: $24 billion.

Tax-Exempt Organizations ($1.8 Billion)

Tax-free IRA withdrawals: $1.6 billion. Effective for years after 2000, IRA withdrawals used for a direct gift to charitable organizations would be excludable from income if the individual is aged 70½ or older and the taxpayer could not take a charity contribution deduction.

Real Estate ($7.3 Billion)

Low-income housing tax credit: $4.1 billion. Increases per-capita credit.

Pensions ($14.9 Billion)

Provisions for Expanding Coverage: $9.4 billion. Includes increased contribution and benefit limits, modification of top-heavy rules, increase minimum benefit under defined benefit plans, incentives for small businesses to establish retirement plans, etc.

Provisions for Enhancing Fairness to Women: $4.3 billion. Including catch-up contributions of up to 50% of the maximum amount that can be contributed to section 401(k) plans, section 403(b) plans, SIMPLE plans, section 457 plans, and IRA contributions for individuals 50 and older, the catch-up contribution percentage is increased by 10% per year from 2001 through 2005 until maximum 50% increase is attained.

Miscellaneous Provisions ($3.8 Billion)

Highway Tax-exempt bonds. Allows up to $15 billion of private-activity, tax-exempt bonds to be issued for 15 highway pilot projects.

Holocaust Survivors: $64 million. Prohibits federal income tax on assets and land received by survivors or heirs.

Extenders ($20.9 Billion)

Research and experimentation: $13.1 billion. Five-year extension.

Work Opportunity Tax Credit: $1.1 billion. Extended through 12/31/01.

Welfare to Work Tax Credit: $280 million. Extended through 12/31/01.

Extend and Modify Wind and Closed-loop Biomass electricity credit: $534 million. Four-year extension for wind and poultry waste only — modifications for wind.

Exemption from Subpart F for active financing: $5.7 billion. Extended through 12/31/04.

Revenue Offsets ($5.5 Billion)

Roughly $5 billion in revenue-raising provisions were included in the conference report.

Contingency Limitations

Sunset after 2009: As in Section 1501 of the Senate bill, all tax-reduction provisions will sunset following 2009 in order to avoid a Byrd rule 313(b)(1)(E) problem regarding reductions in revenues beyond the estimating window.

Gross Interest Reduction: In three years — 2003, 2005, and 2006 — and in regards to three provisions, income tax rate reductions must be preceded by a year in which gross federal interest payments do not increase by more than $1 billion. Those three provisions are: the decrease in 2003 of the 14.5% income tax rate to 14%; the full percentage drop for all other income tax rates in 2005; and in 2006, the 14% income tax bracket's widening by increasing the income limit by $5,000 for singles and heads of household.

Staff Contact: Dr. J.T. Young, 224-2946